

The fight against corruption and the role of parliamentarians

Odd-Helge Fjeldstad

WP 2002: 6



Chr. Michelsen Institute *Development Studies and Human Rights*

CMI Working Papers

This series can be ordered from:

Chr. Michelsen Institute

P.O. Box 6033 Postterminalen,

N-5892 Bergen, Norway

Tel: + 47 55 57 40 00

Fax: + 47 55 57 41 66

E-mail: cmi@cmi.no

Web/URL: <http://www.cmi.no>

Price: NOK 50+ postage

ISSN 0804-3639

ISBN 82-8062-028-1

Indexing terms

Corruption

Parliamentarians

JEL Classification: K42, P37, P51

Introduction¹

Anti-corruption rhetoric appears to be on the rise among politicians and governments in both the North and the South, often as lip-service response to the increasing activism of civil society and the actions taken by some international agencies to fight corruption. This does not mean that no country and institution have undertaken serious efforts against corruption. But there are many whose commitment to addressing the problem is rather dubious. It is therefore important to be aware of the fact that the fight against corruption can present few success stories (Kaufmann, 1999). The only clear-cut successes have been Hong Kong and Singapore, both city-states that had fairly authoritarian governments when they initiated their anti-corruption efforts. A few other countries, including Italy and Mexico have made inroads on corruption but have by no means destroyed the problem. However, recent years have also experienced several setbacks. In Uganda, for instance, corruption seems to be on the rise, and its ranking in *Transparency International's* corruption index now remains far below even Africa's gloomy average.

Plotting the evolution of the corruption index over time by regions of the world (using simple averages of the countries belonging to the respective region), shows that Latin America and South Asia have experienced a decline in overall perceived corruption during the last decade, while Western Europe, North America, Eastern Europe, Central Asia, Africa and the Middle East have experienced an increase during the same period (Lederman & Soares, 2001). These data, combined with recent scandals in Britain, France, the European Union and Norway clearly show that corruption is not an exclusive phenomenon in developing countries. Moreover, countries with almost the same level of economic development exhibit enormous differences in the levels of corruption; compare, for instance, Ghana and Tanzania, and the Netherlands and Belgium. Models linking corruption solely with the degree of economic development cannot explain these facts (Andvig & Fjeldstad, 2001). Nor are they fully captured by institutional differences (Hauk & Marti, 1999).

There are still many aspects of the phenomenon corruption we only know poorly, including:

¹ This note is an extended version of a paper presented at the 'Third Conference of the Parliamentary Network on the World Bank' (PnoWB), Bern, Switzerland, 9-11 May 2002. Useful comments on earlier drafts were received from Aslak Orre. Points of view and any remaining errors can be attributed to the author.

- Why have so many anti-corruption campaigns failed?
- What are the necessary criteria for sustainable corruption control?
- How to design and implement anti-corruption strategies and concrete actions that are likely to have sustainable results?

Thus, before designing and implementing a detailed anti-corruption strategy a major challenge for reformers is to ask the ‘right’ questions and to make the right priorities based on country specific characteristics. The purpose of this note is therefore not to give ready-made answers, but to raise some questions that need to be dealt with in the further process, and to outline some challenges for Parliamentarians in the fight against corruption.

Actions against corruption

In spite of recent setbacks and the fact that corruption and bribery seem to be growing in some countries and regions, there are still reasons to be optimistic about initiatives to curb corruption. For instance, recognition that corruption is a problem is far more widespread today compared to just a few years ago. Civil society is mobilising in many places, and the international community has been increasingly willing to take action. In particular, the role of Transparency International has been important in raising public awareness on the issue.

There are at least four reasons for being mildly optimistic with respect to the outcome of the fight:

1. First, to the extent that corruption is the abuse of public office for private gain, its perpetrators have one foot in the official world. They are thus within the reach of incentives or threats – such as removal from office – that may persuade them to change their behaviour.
2. Second, since corruption usually creates economic inefficiencies and hampers growth, there is a beginning realisation that corrupt countries tend to lose out in the international competition for capital and aid. Therefore, businesspeople and financiers in developing countries hit by collapsing economies now demand more than a minister’s blessing before they risk money.

3. Third, corruption is now an issue that brings the crowds out on the streets. For once, protesters in Harare, Manila, Nairobi, Jakarta and elsewhere are on the same side as the IMF and the World Bank.
4. Fourth, a number of politicians and senior civil servants have been prosecuted and convicted for corruption in, for instance, Peru, Tanzania and France. Moreover, several staff members of multilateral organisations such as the World Bank and UNICEF have been suspended or fired due to corruption.

Corruption must be fought on many fronts. To succeed requires looking at the fundamental causes of corruption in depth and with open minds, avoiding counterproductive biases. This also requires open-mindedness with respect to the weaknesses of political institutions, and to seriously consider the possible role of politicians involved – directly or indirectly - in corruption.

Political corruption

Political parties and elections are key factors in facilitating corruption in some countries. Many political parties are organised and run in a highly authoritarian and unaccountable fashion, producing leaders who then approach their work in government in a similar way. Likewise, many election campaigns establish a pattern of vote buying, which then becomes the *routine* for politicians once in office. In some countries, election as a Member of Parliament (MP) is viewed as a ‘license to loot’.² In Russia and Ukraine, for instance, criminal groups and mafias have sought election to Parliament simply to avoid prosecution based on parliamentary immunity. This propensity to make ‘rent seeking’ a main political occupation is reinforced by executive domination that often leaves little space for ordinary parliamentarians to carry out their legislative, oversight and representative functions in ways that respect and strengthen good governance values of accountability, transparency and participation.³

² Some of these problems are summarised by Robert Miller in *Development Forum Discussion Archives* (www2.worldbank.org/hm/anticorrupt/0097.html).

³ The Canadian *Parliamentary Centre* provides practical guidelines to parliamentarians on the issue of corruption and the role of parliaments in controlling it (<http://parlcent.parl.gc.ca/English/index.htm>).

The key challenge for MPs is to make the executive accountable. But to establish credible anti-corruption measures, parliamentarians have to start with themselves and show that the new rules of the game also apply to them.

Relevant policy measures may include:

- Political parties should be obliged to report and publish how they are funded.
- Independent bodies should audit these reports.
- Periodic public declarations of assets and income sources by MPs, ministers and government officials - and at time by their dependants.
- In some countries it might also be required to reconsider parliamentarians' immunity against criminal prosecution.

State capture

In transition economies corruption has taken on a new image - that of so-called oligarchs manipulating policy formation and even shaping laws and regulations to their own substantial advantage by 'buying' politicians and state officials.⁴ Various forms of 'state capture' are observed in connection with, for instance, privatisation programmes and tax reforms. In some countries there are markets for tax exemptions. Other forms of state capture include: (1) the sale of Parliamentary votes on laws to private interests; (2) the sale of Presidential decrees to private interests; (3) the sale of court decisions in criminal cases; (4) the sale of court decisions in commercial cases; and (5) illicit contributions paid by private interest to political parties and election campaigns. Because powerful business people and firms use their influence to block any policy reforms that might eliminate these advantages, state capture has become not merely a symptom but also a fundamental cause of poor governance in some countries. In particular, this has been observed in transition economies in Eastern Europe and the former Soviet Union, but also in some Latin American countries.

Once the captured economy has become entrenched, how can the country break out of the vicious circle? Fostering competition in the economy and in the marketplace for political influence is the main challenge in preventing and combating state capture (Hellman & Kaufmann, 2001). There is broad agreement on the steps to achieve reform, such as restructuring monopolies to increase competition, encouraging trade, and fostering a more

⁴ An empirical investigation of state capture is found in Hellman et al. (2000).

favourable business environment, also for smaller and medium sized enterprises. But although the general solutions might be well known, the bottleneck is often to formulate concrete reform measures and get them adopted and implemented. Moreover, in many countries there is a need for clarifying and enforcing conflict-of-interest rules.

Another challenge is to co-ordinate the actions of the vast majority of constituencies that lose from the capture economy while only a small elite gain. Mobilising small and medium sized enterprises, consumers and other interest groups, and enhancing their collective voice to counterbalance the economic elite can be powerful instruments in weakening the foundation of the captured economy.

Corruption in international business

Foreign investors can be – and often are - part of the problem. Experiences with multinationals during the last few decades clearly show that measures are required to take actions to alter the incentives of foreign businesses and to promote social responsibility by foreign-based corporations where they invest. This requires international co-ordination.

The OECD's anti-bribery convention of 1997 aims to stop 'grand' corruption at its source – i.e., the multinational companies that bribe their way to contracts, mainly in poor countries, but also in the West. Some cynics argue that the convention merely encourages Western firms to bribe more cleverly. For instance, loopholes exist such as trips to Disneyland on fat expense accounts and financing scholarships at prestigious universities for the corrupt officials' offspring. Politicians should address such loopholes. Moreover, foreign subsidiaries can also bribe, so long as their Western headquarters are not in on it. And when a briber is a foreign agent – as he often is – it can be desperately hard to pin the responsibility on him. Even Finland, which is considered to be the most advanced in implementing the OECD convention, has yet to bring a single criminal case involving the bribery of a foreign public official (*The Economist*, 2 March 2002:70).⁵

⁵ *The Economist*, 2 March 2002, provides an excellent special report on bribery in international business transactions.

But the OECD's new rules may prove effective. They require countries to help each other to prosecute cases. Since each country has an interest in preventing others from stealing an advantage by bribery, they all have an incentive to monitor each other's adherence to the new convention. In particular, the further pursuit of corporate bribery will require prosecutors to take a fresh look at the behaviour of their highly respected local companies when operating outside their home market. This will involve a reappraisal of investigative techniques, in particular with regard to the collection of evidence from abroad. Furthermore, there are signs that some businesses are acquiring the anti-bribery instinct. For instance, Unilever, a big consumer-products company, pulled out of Bulgaria rather than paying bribes. Moreover, United Technology, an American multinational company that makes Otis lifts and Sikorsky helicopters experienced that its market share and profitability increased when the company fired the president of a foreign subsidiary for making gifts to foreign officials (*The Economist*, 2 March 2002:70). Thus, the myth that a company which does not pay bribes in developing countries will not do business, has to be revised.

Now that the OECD's governments are promising to punish cheaters, more companies may choose honesty. However, if it becomes evident that (some) OECD governments either is not effective in enforcing the convention or is practising favouritism toward special interests, one will expect cynicism as well as bribery to increase.

Furthermore, international efforts against money laundering need to be strengthened. There are clear links between corruption and money laundering. And increasingly money laundering is connected with international organised crime. The social and economic consequences of this private-to-private corruption involving the international financial industry is extremely serious, and may have contagious effects on public sector corruption. There is an urgent need for politicians to establish and enforce international conventions to tackle these issues.

Some policy measures to consider are:

- Banish secret accounts.
- Establish international standards for bank accounts, including that full identity is required when opening new accounts.
- Ease the rules for confiscating money which cannot be accounted for.

- Establish international agreements and mechanisms for the repatriation of illegally acquired wealth in foreign banks.
- Strengthen the economic police and facilitate co-operation between the economic police of various countries.

Is foreign aid a part of the problem?

In many poor countries donors are the major driving force in public sector and structural reforms. They contribute substantial funds and technical assistance to most reform initiatives, often linked to specific demands for particular institutional changes. Donor influence on the design, scope and sequencing of reforms is therefore substantial. However, in a comprehensive study on the role of government in adjusting economies, Batley (1999) concludes that public sector reform programmes pushed by donors and emphasising technocratic solutions, have led to increased bureaucratic power without a strengthening of the accountability of the bureaucracy (managers) to politicians and the public. Donors, by the means they use to promote development, may thereby undermine democracy and good governance.

Thus, international agencies and donor governments bear a heavy responsibility for weakening genuine accountability in poor countries by insisting that the key accountability relationship is between donors and recipient governments rather than between governments and citizens. It seems to be the case in many aid dependent countries that recipient governments are more accountable to the donor agencies than to their own citizens.

Moreover, donors, often governed by disbursement goals have ballooning budgets for various projects and programmes. The push to spend makes it difficult for donors to monitor or evaluate adequately the quality of their assistance. In particular, tied aid in the form of export credit schemes have been notorious sources for bribery and kickbacks. Furthermore, donors' tendency to move into new areas and activities at the same time add to the problem of too much aid chasing too little absorptive capacity. The consequence is poor control with how the money is spent and huge opportunities for corruption. A secure source of foreign aid can be like a diamond mine from which corrupt officials and politicians can extract rents. Few donors, however, are willing to admit that they have weak control over their spending, as they do not want to be seen as supporting non-performing and corrupt activities.

The prescription of ‘good governance’ through improved accountability and transparency should be introduced in the donor agencies as well. To address the question of corruption, donors ought to focus on their own role in contributing to the problem. To establish credibility, more openness about weaknesses in the aid system is needed. The non-governmental organisation *Transparency International* regularly publishes a corruption perception index, ranking countries according to their levels of corruption. There seems to be a need for an index ranking donor agencies according to similar criteria, to make the public more informed and the agencies more accountable about this important issue.

Still there are a number of important issues that need to be addressed by parliamentarians from donor countries, including:

- How to improve co-ordination between donors? This issue has been discussed within OECD-DAC for the last decades, but the progress is very slow.
- Abolish tied aid in the form of export credit schemes. The British government’s efforts to reduce tied aid, should be acknowledged.
- More flexibility in transferring unspent budget components from one year to the next to avoid the annual Christmas-spending spree.
- How to make transparency the “golden rule” of the new international aid system? In this respect, the World Bank’s use of internet should be commended. Why not put all information on projects, programmes, budget support etc. out on the world wide web?
- Imagine; a ‘transparency index’ for donors?

Political will and trust

To defeat public sector corruption the distinction between private preference and public duty must be enforced. Much of the task involves instructing institutions about their public duties and then giving them the appropriate incentives, such as higher salaries. It is, however, important to stress that wage incentives will only function in combination with other measures, including credible policies of monitoring and punishment. Furthermore, the judiciary should be shielded from political influence, and politicians from the temptations that come with the need to pay for election campaigns. In developing countries, the international community may assist such reform processes by contributing in building institutions.

However, Parliamentarians, international donor agencies and other reformers will not achieve much unless the ordinary people most affected by corruption take up the fight themselves. The best remedy may not come from judges but from information. When people are given access to the facts that affect their welfare through the media, internet etc., this may contribute to reduce the public tolerance of corruption and encouraging citizens to actively report and provide evidence of corruption. Politicians and public servants may, thus, think twice about breaking their trust. Increased transparency and focus on corruption may, therefore, reduce the incidence of corruption by increasing the moral and stigma costs of corrupt behaviour, and by raising the risk of being detected. Grassroots ‘watchdog’ organisations can play an important role in this context. But if nothing is done in practice to curb corruption in spite of increased information this may lead to increased frustration and cynicism among the general public. If cynicism sets in after non-performing anti-corruption campaigns, this will most likely lead to increased corruption.

Consequently, the successful implementation of anti-corruption efforts requires political will and commitment at the highest levels of government and, thereby implicitly also by MPs. However, when the level of corruption is high and nothing is done to punish corrupt leaders, public confidence in the political and administrative leadership is undermined. If leaders are corrupt, this may also “legitimise” lower level corruption.

Concluding remarks

What can Parliamentarians do to fight corruption?

The simple answer to this question is:

- Be honest! Do not accept bribes.
- Second, think global – act local. Different anti-corruption measures are required in different countries. But, international co-ordination of anti-corruption measures is also required, including measures to strengthening the OECD-convention and to fight money laundering.
- Third, be ambitious - but realistic. It is important to recognise that the challenge of fighting corruption should not be used as an opportunity to expand the reform agenda beyond what is feasible, but rather to prioritise that agenda more effectively by developing

a clearer sense of the factors that prevent further institutional reforms. The main task of parliamentarians is to make the executive accountable.

- Fourth, education is crucial. At least one general lesson can be drawn from the anti-corruption measures in Hong Kong where public attitudes against corruption have changed dramatically during the last decades. A main component of the Hong Kong reform programme was to 'build a strong altruism and a sense of responsibility in oneself and toward the others', de-emphasising the importance of getting money and getting ahead at the expense of others (Hauk & Marti, 1999:3). Thus, education and information on the economic, political and social costs of corruption are key elements in reducing corruption successfully in the longer term.

References

- Andvig, J. & Fjeldstad, O.-H., with Amundsen, I., Sissener, T. and Søreide, T. 2001: 'Corruption. A review of contemporary research.' *CMI Report R 2001:7*. Bergen: Chr. Michelsen Institute.
- Batley, R. 1999. 'The new public management in developing countries, *Journal of International Development*, Vol. 11, pp. 755-765.
- Hauk, E. & Marti, M.S. 1999. 'On the cultural transmission of corruption.' Mimeo, Department of Economics, University of Pompeu Fabra and Stockholm School of Economics.
- Hellman, J. & Kaufmann, D. 2001. 'Confronting the challenge of state capture in transition economies.' *Finance & Development*, Vol. 38, No. 3 (September). [<http://www.imf.org/external/pubs/ft/fandd/2001/09/hellman.htm>]
- Hellman, J., Jones, G. & Kaufmann, D. 2000. 'Seize the state, seize the day. State capture, corruption and influence in transition.' *Policy Research Working Paper 2444* (December). Washington D.C.: World Bank.
- Kaufmann, D. 1999. 'Anti-corruption strategies: Starting afresh? Unconventional lessons from comparative analysis.' Chapter 2 in Stapenhurst & Kpundeh *Curbing corruption. Toward a model for building national integrity*. Washington D.C.: EDI Development Studies.
- Lederman, D. & Soares, R. R. 2001. 'Accountability and corruption. Political institutions matter'. WB Policy Research Working Paper 2708, Washington DC (November).

Summary

This note outlines some challenges facing parliamentarians in the fight against corruption. To succeed, it is argued, requires open-mindedness with respect to the weaknesses of political institutions, and to seriously consider the possible role of politicians in fuelling corruption.

Recent Working Papers

- WP 2001: 5 SISSENER, Tone Kristin
Anthropological perspectives on corruption. Bergen, 2001, 21 pp.
- WP 2001: 6 WIIG, Arne
Supply chain management in the oil industry. The Angolan case. Bergen, 2001.
- WP 2001: 7 RIO, Narve
The status of the East Timor agricultural sector 1999. Bergen, 2001, 32 pp.
- WP 2001: 8 BERHANU, Gutema Balcha
Environmental, social and economic problems in the Borkena plain, Ethiopia. Bergen, 2001, 17 pp.
- WP 2001: 9 TØNDEL, Line
Foreign direct investment during transition. Determinants and patterns in Central and Eastern Europe and the former Soviet Union. Bergen, 2001, 41 pp.
- WP 2001: 10 FJELDSTAD, Odd-Helge
Fiscal decentralisation in Tanzania: For better or for worse? Bergen, 2001.
- WP 2001: 11 FJELDSTAD, Odd-Helge
Intergovernmental fiscal relations in developing countries. A review of issues. Bergen, 2001.
- WP 2001: 12 SUMAILA, Ussif Rashid and Samuel A. Laryea
Determinants of inflation in Tanzania. Bergen, 2001, 17 pp.
- WP 2001: 13 FJELDSTAD, Odd-Helge and Bertil Tungodden
Fiscal corruption: A vice or a virtue? Bergen, 2001.
- WP 2001: 14 TUNGODDEN, Bertil
A balanced view of development as freedom. Bergen, 2001, 21 pp.
- WP 2001: 15 SKAAR, Elin
Judicial independence and human rights policies in Chile and Argentina. Bergen, 2001, 24 pp.
- WP 2001: 16 TJØNNELAND, Elling N. *Rainbow justice and peace building. South Africa 1994-2001.* Bergen, 2001, 11 pp.
- WP 2001: 17 ANDVIG, Jens Chr., Odd-Helge Fjeldstad and Amit Shrivastava
Corruption: Critical assessments of contemporary research. Report from a multidisciplinary workshop. Bergen, 2001, 29 pp.
- WP 2001: 18 ANDVIG, Jens Chr. and Odd-Helge Fjeldstad (eds.)
Research on corruption in Bangladesh, Nepal, Sri Lanka, Tanzania and Uganda. What who and where? Bergen, 2001, 19 pp.
- WP 2002: 1 GRANBERG, Per
Updating the IO based Macmod functions. Bergen, 2002.
- WP 2002: 2 GRANBERG, Per
An analysis of Tanzania's 1998 imports. A sector of origin and end use analysis of Tanzania's goods imports, undertaken for the Macmod model. Bergen, 2002.
- WP 2002: 3 FJELDSTAD, Odd-Helge
Fighting fiscal corruption: The case of the Tanzania Revenue Authority. Bergen, 2002, 15 pp.
- WP 2002: 4 ISAKSEN, Jan
Energy cooperation in Southern Africa: What role for Norway? Report from the Seminar on Regional Energy Co-operation, Luanda, 12-14 February 2002. Bergen, 2002, 66 pp.
- WP 2002: 5 TOSTENSEN, Arne
Urban dimensions of donors' poverty-reduction strategies. Bergen, 2002, 17 pp.